

sweeting SETTLING OLD SCORES

Not that video retailers need a lot of reminding, but the studios have been providing ample evidence lately that they're thinking past the days when prerecorded video made up the dominant ancillary market for movies.

Speaking at the *Variety*/Schroeder Company's The Big Picture conference in New York two weeks ago, The Walt Disney Company chairman Michael Eisner noted that downloading movies via the Internet will eventually give studios something they've never had—no middleman.

Referring to a study that estimated the average price for a download at \$2.50, Eisner said, "the Internet would have a profoundly positive impact on studios since, unlike home-video rentals, the studios would be capturing all of the revenues" (VB, 4/10).

A Then last week came 20th Century Fox's endorsement of copy-protection standards for digital VHS (D-VHS) announced by format-developer JVC (see separate story).

Although the standards include copy-protection for prerecorded D-VHS programming, raising the prospect that Fox may release its movies in the new format, the studio seemed more interested in what the new standards could do to encourage the electronic delivery of movies.

"By offering content providers such as Fox and the other studios virtually perfect copy protection, [D-VHS] should encourage more availability of [high-definition] content for home recording," Fox Filmed Entertainment chairman Bill Mechanic said in a statement.

In other words, once the studios know they can take advantage of new digital technologies to deliver movies electronically without fear of piracy, according to Fox's logic, electronic delivery will bloom.

Also, knowing Mechanic, the reference to the "virtually perfect copy protection" provided by the JVC standards is almost certainly meant as a sly swipe at the

already-compromised protection provided by DVDs.

Eisner's comments are particularly notable. As technology of the Internet advances, studios will some day be able to offer direct downloads from their own Web sites, with no third-party licensee with whom to share the revenue.

The studios share revenue in every distribution channel, of course. Theater operators take a cut of the box office and pay-per-view operators take a cut of each movie bought.

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Yet, in Eisner's mind, getting around video rentals stood out most as providing the studios with the biggest upside.

Eisner knows perfectly well that the video-rental market has been hugely lucrative for the studios over the years. However, it's also the only market where they don't claim the lion's

share of the revenue.

Theater operators are lucky to get 10% of the take in the first few weeks of a movie's release, while PPV operators get about a third.

But video always left the studios with the short end of the stick. Even under revenue-sharing with the major chains—which has boosted total studio dollars—the studios' take is only about 40% of the gross.

It's an old score, and no studio would be likely to miss a chance to settle it with new technology.

Prererecorded D-VHS software, by itself, would do nothing to change the economics of the rental market. Introducing a second digital format may even risk confusing consumers to the point of apathy.

A Fox has other old scores to settle, however.

Lucrative though it has been for the studios, selling inexpensive hard copies of movies has also been a sort of welfare program for pirates, providing them with the raw material for their illicit trade.

Fox was never happy with the Content Scrambling System (CSS) standard adopted to protect DVDs from illegal copying, and it wasn't any happier when CSS was quickly hacked.

More than most studios, Fox has long been uneasy about releasing its most valuable assets on the format.

It's little wonder then, that it would respond enthusiastically to what it perceives as a superior degree of copy protection provided by the JVC standards.

For prerecorded software, the new format provides greater protection than is available to the studios with DVD. Moreover, unlike DVD, the D-VHS format does not mix home-video technology with computer technology, foreclosing the terrifying (to the studios) possibility that movies could be uploaded onto the Internet, where they'd be lost to the copyright owner forever.

Even better, from Fox's point of view, the JVC standards for the electronic delivery of movies looks forward to a day when the studios have a viable alternative to making their most valuable assets available in prerecorded form at all. ■

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